



**GALAPAGOS CONSERVANCY, INC.**

**FINANCIAL STATEMENTS**

*As of and for the Year Ended March 31, 2014*

*And Report of Independent Auditor*

**GALAPAGOS CONSERVANCY, INC.**

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## Report of Independent Auditor

To the Board of Directors of  
Galapagos Conservancy, Inc.  
Fairfax, Virginia

We have audited the accompanying financial statements of Galapagos Conservancy, Inc. (a nonprofit organization), which comprise the statement of financial position as of March 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

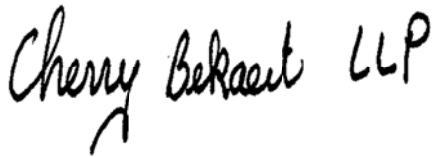
### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Galapagos Conservancy, Inc. as of March 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 12, the April 1, 2013 net assets have been restated to correct an overstatement of grants payable in the March 31, 2013 financial statements. We audited the adjustment necessary to restate the April 1, 2013 net assets and, in our opinion, such adjustment is appropriate and has been properly applied. Our opinion is not modified with respect to this matter.

As discussed in Note 13, current year classification of investment activity differs from the prior year due to a correction of an error. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Cherry Bekraet LLP". The signature is written in a cursive, flowing style.

Tysons Corner, Virginia  
June 26, 2014

**GALAPAGOS CONSERVANCY, INC.**  
**STATEMENT OF FINANCIAL POSITION**

MARCH 31, 2014

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 542,069
Prepaid expenses	128,000
Inventory	13,071

Total Current Assets	683,140
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Investments	5,348,892
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Property and equipment

Furniture	25,980
Equipment and software	47,250
	73,230

Less accumulated depreciations	(28,122)
	45,108

<b>Total Assets</b>	<b>\$ 6,077,140</b>
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**LIABILITIES AND NET ASSETS**

Current Liabilities:

Accounts payable and accrued expenses	\$ 65,499
Deferred revenue	109,325
Grants payable	241,437
Total Current Liabilities	416,261

Commitments

Net Assets

Unrestricted net assets	
Unrestricted	1,450,524
Board designated for future grants payable	900,000
	2,350,524
Temporarily restricted	838,542
Permanently restricted	2,471,813
	5,660,879

<b>Total Liabilities and Net Assets</b>	<b>\$ 6,077,140</b>
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**GALAPAGOS CONSERVANCY, INC.****STATEMENT OF ACTIVITIES**

YEAR ENDED MARCH 31, 2014

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support:				
Contributions	\$ 2,095,916	\$ 809,420	\$ -	\$ 2,905,336
Investment income	280,448	279,388	-	559,836
Sales	18,271	-	-	18,271
Net assets released from restrictions	546,805	(546,805)	-	-
<b>Total revenue and support</b>	<u>2,941,440</u>	<u>542,003</u>	<u>-</u>	<u>3,483,443</u>
Expenses:				
Program services:				
Strategic Partnerships	753,377	-	-	753,377
Allocated program costs	713,853	-	-	713,853
Ecosystem Restoration	299,367	-	-	299,367
Sustainable Society	223,888	-	-	223,888
Cost of goods sold	17,423	-	-	17,423
	<u>2,007,908</u>	<u>-</u>	<u>-</u>	<u>2,007,908</u>
Support services:				
Management and general	153,474	-	-	153,474
Fundraising	506,811	-	-	506,811
<b>Total expenses</b>	<u>2,668,193</u>	<u>-</u>	<u>-</u>	<u>2,668,193</u>
<b>Change in net assets</b>	<u>273,247</u>	<u>542,003</u>	<u>-</u>	<u>815,250</u>
Net assets:				
Beginning	1,577,277	296,539	2,471,813	4,345,629
Restatement of net assets	500,000	-	-	500,000
Beginning, as restated	<u>2,077,277</u>	<u>296,539</u>	<u>2,471,813</u>	<u>4,845,629</u>
Ending	<u>\$ 2,350,524</u>	<u>\$ 838,542</u>	<u>\$ 2,471,813</u>	<u>\$ 5,660,879</u>

The accompanying notes to the financial statements are an integral part of this statement.

**GALAPAGOS CONSERVANCY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED MARCH 31, 2014

	Program Services			Support Services		
	Environmental Programs	Outreach Programs	Total Program Services	Management and General	Fundraising	Total
Grants	\$ 1,276,541	\$ -	\$ 1,276,541	\$ -	\$ -	\$ 1,276,541
Salaries, benefits and taxes	381,925	-	381,925	94,457	82,616	558,998
Consultants	-	29,500	29,500	-	99,000	128,500
Printing	-	37,822	37,822	-	115,324	153,146
Postage and shipping	2,319	41,279	43,598	792	63,890	108,280
Mail house	-	14,254	14,254	-	56,202	70,456
Professional fees	53,721	-	53,721	18,345	16,045	88,111
Rent	33,846	-	33,846	11,558	10,109	55,513
Investment and management fees	20,755	-	20,755	5,799	5,072	31,626
Travel	1,372	27,520	28,892	468	3,460	32,820
Telemarketing	-	-	-	-	30,835	30,835
Cost of goods sold	-	17,423	17,423	-	-	17,423
Premiums	-	-	-	-	5,057	5,057
Bank and caging fees	7,794	-	7,794	2,662	2,328	12,784
Depreciation	9,241	-	9,241	2,044	1,787	13,072
Permits	2,080	-	2,080	100	-	2,180
Dues and subscriptions	4,162	-	4,162	1,421	1,243	6,826
Computer and website	29,428	-	29,428	10,049	8,789	48,266
Office supplies	7,132	-	7,132	2,435	2,130	11,697
Miscellaneous	1,356	-	1,356	463	405	2,224
Telephone	3,286	-	3,286	1,122	981	5,389
Payroll fees	1,810	-	1,810	618	540	2,968
Insurance	1,421	-	1,421	485	424	2,330
Training	1,921	-	1,921	656	574	3,151
	<u>\$ 1,840,110</u>	<u>\$ 167,798</u>	<u>\$ 2,007,908</u>	<u>\$ 153,474</u>	<u>\$ 506,811</u>	<u>\$ 2,668,193</u>

The accompanying notes to the financial statements are an integral part of this statement.

**GALAPAGOS CONSERVANCY, INC.**  
**STATEMENT OF CASH FLOWS**

*FOR THE YEAR ENDED MARCH 31, 2014*

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**Cash Flows From Operating Activities**

Change in net assets	\$ 815,250
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	13,072
Realized and unrealized gain on investments	(473,220)
Changes in assets and liabilities:	
(Increase) decrease in:	
Prepaid expenses	(10,921)
Inventory	1,159
Increase (decrease) in:	
Accounts payable and accrued expenses	31,418
Deferred revenue	109,325
Grants payable	44,899
Net cash provided by operating activities:	<u>530,982</u>

**Cash Flows From Investing Activities**

Purchase of property and equipment	(13,619)
Proceeds from sale of investments	3,600,847
Purchases of investments	<u>(3,960,372)</u>
Net cash used in investing activities	<u>(373,144)</u>
Net increase in cash and cash equivalents	157,838

Cash and cash equivalents

Beginning	<u>384,231</u>
Ending	<u>\$ 542,069</u>



# **GALAPAGOS CONSERVANCY, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 2014

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### **Note 1 – Organization and nature of operations**

*Organization and nature of operations* - Galapagos Conservancy, Inc. (the “Conservancy”) is a not-for-profit organization incorporated under the laws of Delaware. The objectives of the Conservancy are to promote science, conservation and environmental education in the Galapagos Islands and other island ecosystems.

### **Note 2 – Significant accounting policies**

*Basis of Accounting* - The financial statements are prepared on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

*Basis of Presentation* - The Conservancy follows the Not-for-Profit Topic of the FASB Accounting Standards Codification (the Codification). Under this topic, the Conservancy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Cash and Cash Equivalents* - For the purpose of reporting cash flows, the Conservancy considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

*Inventory* - Inventory is available for sale to members and the general public and is recorded at the lower of cost using first-in, first-out basis, or market.

*Investments* - Investments with readily determinable values are recorded at fair value. Unrealized gains and losses are reported in the statement of activities as part of investment income.

The Conservancy invests in shares of equity mutual funds. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

*Property and Equipment* - Property and equipment purchases are recorded at cost and, if donated at fair value, depreciation is computed on the straight-line basis over their estimated useful lives. All property and equipment purchases with an estimated useful life over one year and cost greater than \$500 are capitalized.

*Deferred Revenue* - Deferred revenue consists of deferred cruise payments that will be recognized when the cruise occurs.

*Restricted and Unrestricted Revenue* - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions.

All donor-restricted revenue, including endowment investment income, is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional promises to give are measured at fair value and reported as increases in net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

# GALAPAGOS CONSERVANCY, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2014

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### Note 2 – Significant accounting policies (continued)

*Functional Allocation of Expenses* - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs which could be directly identified with a specific program were charged to that program, but items for general use or not directly identifiable were allocated to each program based on direct labor hours.

*Income Taxes* - The Conservancy is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and accordingly, no provision for income taxes has been recorded in the financial statements. Management has evaluated the effect of the guidance provided by accounting standards generally accepted in the United States of America on Accounting for Uncertainty in Income Taxes. Management believes that the Conservancy continues to satisfy the requirements of a tax-exempt organization at March 31, 2014. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined that the Conservancy had no uncertain tax positions at March 31, 2014. Should the tax-exempt status be challenged in the future, the Conservancy's 2010, 2011, and 2012 tax filings are open to examination by the IRS.

*Use of Estimates* - The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Note 3 - Investments

Investments consist of the following at March 31, 2014:

Mutual funds	\$ 4,683,267
Bonds	458,277
Money market	207,348
	<u>\$ 5,348,892</u>

Investment income consists of the following for the year ended March 31, 2014:

Interest	\$ 86,616
Unrealized gain on investment	306,766
Realized gain	166,454
	<u>\$ 559,836</u>

### Note 4 - Line of credit

The Galapagos Conservancy has a \$200,000 line of credit that expires on October 5, 2014. The line of credit accrues interest at the bank's prime lending rate of 5.25% and is secured by all assets of the Conservancy. The bank also requires the Conservancy to comply with certain administrative covenants. There was no outstanding balance on the line at March 31, 2014.

**GALAPAGOS CONSERVANCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 2014

**Note 5 - Temporarily restricted net assets**

Temporarily restricted net assets as of March 31, 2014, are available for the following purposes or periods.

<u>Program</u>	<u>March 31, 2013</u>	<u>Restricted Contributions</u>	<u>Restriction Accomplished</u>	<u>March 31, 2014</u>
Library Fund	\$ 100,000	\$ 100,500	\$ -	\$ 200,500
Celebrity Expeditions	79,779	56,760	-	136,539
Education	49,865	102,765	70,141	82,489
Lonesome George	22,000	-	11,481	10,519
Web Cams	20,000	-	18,274	1,726
Botany	10,000	-	10,000	-
Knowledge Management - Tinker	8,098	-	8,098	-
Tortoise Workshop/Restoration	3,397	9,500	12,897	-
Galapagos Travel	2,050	50	-	2,100
Ornithology	-	29,469	27,000	2,469
Operation	1,350	8,176	9,526	-
Marine - Offfield	-	2,200	-	2,200
Ed Bass	-	500,000	100,000	400,000
	<u>\$ 296,539</u>	<u>\$ 809,420</u>	<u>\$ 267,417</u>	<u>\$ 838,542</u>

**Note 6 - Permanently restricted net assets**

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support various scientific researches of the Galapagos Islands:

	<u>March 31, 2013</u>	<u>Contributions</u>	<u>March 31, 2014</u>
General Endowment	\$ 1,583,535	\$ -	\$ 1,583,535
USAID Endowment	500,000	-	500,000
Marine Endowment	358,278	-	358,278
Darwin Scholars Endowment	30,000	-	30,000
	<u>\$ 2,471,813</u>	<u>\$ -</u>	<u>\$ 2,471,813</u>

**GALAPAGOS CONSERVANCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 2014

**Note 6 - Permanently restricted net assets (continued)**

Endowment Activity for the year ended March 31, 2014, consists of the following:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Endowment net assets, beginning of year	\$ -	\$ 2,471,813
Contributions	-	-
Investment income:		
Net realized and unrealized gains	236,508	-
Interest and dividends	42,880	-
Appropriated for expenditure	(279,388)	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,471,813</u>

In August 2008, the Codification on *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Fund* was issued. The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006 and enacted in the Commonwealth of Virginia on July 1, 2008. The Management of the Conservancy has interpreted UPMIFA as requiring the preservation of the fair value of original donor- restricted endowment gifts as of the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Conservancy in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Conservancy endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Investment policies

*Return objective and risk parameters* - The Conservancy's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support their programs. The Conservancy is primarily invested in publicly traded mutual funds, equities, and corporate bonds.

*Spending policies* - The earnings from these endowments are available in support of programs of the Conservancy. The Board of Directors appropriates the entire balance of the annual earnings to be available for grants in support of the Conservancy's mission.

**GALAPAGOS CONSERVANCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*MARCH 31, 2014*

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**Note 7 - Lease commitments**

The Conservancy leases its office space under a noncancelable agreement that expires June 2018. The lease does not require the payment of any rentals during the first month of the lease, and beginning the second year thereafter the rental payments increase 3% per year through the end of the lease term. Rent expense for the year ended March 31, 2014, was \$55,513.

Future minimum lease payments at March 31, 2014, are as follows:

<u>Years Ending March 31,</u>	
2015	\$ 57,067
2016	58,749
2017	60,483
2018	62,269
2019	15,680
	<u>\$ 254,248</u>

**Note 8 - Retirement plan**

The Conservancy has a simple IRA plan covering all employees' on their date of hire. Employees can make salary deferrals up to limits specified in the plan. The Conservancy contributes 2% of each employee's salary. Employer contributions to the plan for the year ended March 31, 2014, were \$6,270.

**Note 9 - Fair value measurements**

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Conservancy performs a detailed analysis of the assets that are subject to fair value measurements. At each reporting period, all assets for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by the Conservancy at March 31, 2014.

**GALAPAGOS CONSERVANCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 2014

**Note 9 - Fair value measurements (continued)**

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual Funds:				
Large Growth	\$ 836,740	\$ 836,740	\$ -	\$ -
Short-Term Bond	607,330	607,330	-	-
Foreign Large Blend	533,648	533,648	-	-
Diversified Emerging Mkts	532,671	532,671	-	-
Small Growth	338,336	338,336	-	-
Real Estate	295,562	295,562	-	-
Large Blend	262,802	262,802	-	-
Commodities Broad Basket	210,362	210,362	-	-
Global Real Estate	194,870	194,870	-	-
Foreign Large Value	194,170	194,170	-	-
Mid-Cap Value	192,159	192,159	-	-
High Yield Bond	162,646	162,646	-	-
Emerging Markets Bond	135,998	135,998	-	-
Mid-Cap Growth	107,477	107,477	-	-
World Bond	59,986	59,986	-	-
Europe Stock	18,510	18,510	-	-
Bonds:				
Corporate Obligations (a)	232,619	-	232,619	-
Government Obligations	188,174	-	188,174	-
Mortgage Backed Securities	37,484	-	37,484	-
	<u>\$ 5,141,544</u>	<u>\$ 4,683,267</u>	<u>\$ 458,277</u>	<u>\$ -</u>

(a) Based on its analysis of the nature and risk of these investments, the Conservancy has determined that presenting them as a single class is appropriate. Equity securities, exchange traded funds and index tracking stock are classified as Level 1 instruments as they are actively traded on public exchanges.

Corporate bonds, government obligations and mortgage backed securities are classified as Level 2 instruments because there are quoted market prices for similar, but not identical, assets in active markets. These are valued using a market approach using interest rate and maturity period.

The table below reconciles total investments.

Total investments at fair value	\$ 5,141,544
Investments at cost - money market	207,348
	<u>\$ 5,348,892</u>

**GALAPAGOS CONSERVANCY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

MARCH 31, 2014

**Note 10 – Concentration of credit risk**

The Conservancy places its cash and cash equivalents on deposit with financial institutions in the United States of America. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. The Conservancy from time to time may have amounts on deposit in excess of the insured limits. The Conservancy has not experienced any losses related to these accounts and does not believe that it is exposed to any significant credit risk with respect to cash and cash equivalents. Total uninsured cash balances at March 31, 2014 were approximately \$59,000.

**Note 11 - Subsequent events**

The Conservancy evaluated subsequent events through June 26, 2014, which is the date the financial statements were available to be issued.

**Note 12 – Restatement of net assets, beginning of year**

Net assets as of April 1, 2013 have been restated to properly reflect the correction of an error in grants payable. The effects of this adjustment on the previously issued financial statements are as follows:

	Grants Payable	Grant Expense	Net Assets
Balance, as previously reported	\$ 696,538	\$ 1,463,835	\$ 4,345,629
Correction of overstatement of grants payable	(500,000)	(500,000)	500,000
Balance, as restated	<u>\$ 196,538</u>	<u>\$ 963,835</u>	<u>\$ 4,845,629</u>

**Note 13 – Consistency of financial statements**

The financial statements for the year ended March 31, 2013 presented restricted investment gains and income that met restrictions in the same reporting period as unrestricted support. Whereas, restricted contributions whose restrictions were met in the same reporting period were recognized as temporarily restricted revenue and a release from restriction. Accounting principles generally accepted in the United States of America requires the treatment of restricted investment gains and income to be consistent with the treatment of restricted contributions. The accompanying statement of activities reflects the restricted investment gains and income in the same manner as restricted contributions. The prior year statement of activities has been restated as follows:

	Unrestricted	Temporarily Restricted
Investment income	\$ 149,805	\$ 197,834
Net assets released from restriction	719,401	719,401

This reclassification had no impact on change in net assets or total net assets at March 31, 2013.